

Financial Statements
Sumner Township
Gratiot County, Michigan

March 31, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Sumner Township	County Gratiot
Fiscal Year End 3-31-06	Opinion Date 7-12-06	Date Audit Report Submitted to State 9-27-06	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	No other reports required	
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.		Telephone Number 989-463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
Zip 48801			
Authorizing CPA Signature 		Printed Name CHAD R. PAYTON, CPA	License Number 21946

Sumner Township
Table of Contents
March 31, 2006

Independent Auditor's Report

Management's Discussion and Analysis I - IV

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets	1
Statement of Activities	2

Fund Financial Statements:

Balance Sheet – Governmental Funds	3
------------------------------------	---

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
---	---

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5
--	---

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
---	---

Statement of Net Assets – Fiduciary Funds	7
---	---

Notes to the Financial Statements	8-17
-----------------------------------	------

Required Supplemental Information:

Budgetary Comparison Schedule	18
-------------------------------	----

Government Auditing Standards Report	19-20
--------------------------------------	-------



INDEPENDENT AUDITOR'S REPORT

Sumner Township
Gratiot County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sumner Township, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township, as of March 31, 2006, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2006, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I-IV, and budgetary comparison information on page 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

July 12, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sumner Township Management's Discussion and Analysis

We, the Township Board of Sumner Township, offer citizens of the Township our financial statements with this narrative overview and analysis of the financial activities of Sumner Township for the fiscal year ended June 30, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Sumner Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances.

The statement of net assets on page 1 presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets.

The statement of activities on page 2 presents information showing how the Township's net assets changed during the most recent fiscal year.

Both the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Township include general government, public safety, road projects, and recreation.

The Township adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Fund Financial Statements

Sumner Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8-17 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's Budget to Actual comparison. Required supplementary information can be found on page 18 of this report.

Financial Highlights

The unrestricted net assets of the General Fund of Sumner Township exceeded its liabilities at the close of the most recent fiscal year by \$403,874, which may be used to meet the Township's ongoing obligations to citizens and creditors.

As of the close of the current fiscal year, Sumner Township's governmental funds reported combined ending fund balances of \$408,046, of which \$4,172 is reserved for Perpetual Care, \$40,585 is reserved for the Sumner Community Center, \$6,632 is reserved for Fire Protection, and \$4,952 is reserved for the Sumner Daze Festival. The ending fund balance is a decrease of \$20,984 from the 2004 audit.

The Township's total revenues increased by \$1,214 over the 2004 audit revenues. The Township's total expenditures increased by \$87,329 over the 2004 audit expenditures, do largely to the addition to the Recycle Barn, the remodeling of the West end of the Sumner Community Center and the trade-in of maintenance equipment.

General Fund Budgetary Highlights

Over the course of the year, the Sumner Township board amended the budget to take into account events during the year. The difference between the original budget and the final amended budget was an increase of \$37,265 in expenses, which was taken out of unappropriated funds and can be explained briefly as follows: purchase of a new copy machine for the Township office, addition to the recycle barn and an increase in utilities for the Sumner Community Center, cemeteries and recycle barn. When the original budget was approved, the Township board could not take into account the copy machine breaking down or the increase in the utilities. The addition to the recycle barn was built because the Township needed additional room and with the costs of building materials rising because of the hurricanes, the Township board thought it was necessary to build the addition in fiscal year 2006 instead of waiting.

Capital Asset and Debt Administration

As noted earlier, Sumner Township's total unrestricted net assets exceeded liabilities by \$403,874 at the close of the most recent fiscal year. This shows Sumner Township's careful investment in capital assets and as a result, Sumner Township is debt free.

Major capital asset events during the current fiscal year are:

1. Addition to Recycle Barn
2. Remodeling of the West End of the Sumner Community Center
3. Built a Picnic Pavilion at Elm Hall Township Park
4. Put a new roof on the Sumner Township Park Pavilion
5. Purchased new playground equipment for both Township parks in Sumner and Elm Hall
6. Purchased new playground equipment for the Sumner Community Center

Details of the Township's capital assets are continued in the notes to the financial statements on page 15.

Long-Term Debt: at the end of the current fiscal year, the Township has no major debts.

Economic Factors and New Year's Budgets and Rates

The unemployment rate is still high in the State of Michigan and especially in Gratiot County and the State's shortfall in the budget means further reductions in state-shared revenues. These funds have gradually been reduced to the Township. Because some properties increase in value by less than inflation, and Proposal A caps new growth at the rate of inflation, the result is that the total taxable value of the Township will more than likely grow by less than the rate of inflation, before considering new property. The Township budgeted for this decrease in state-shared revenue, and took cuts in certain areas and more cuts may be needed. Also considered was the low return of interest payments on the Township's CD's. The Township took all of these factors into account when preparing for the 2006-2007 budget fiscal year. The Township presented and approved a balanced budget for the 2006-2007 fiscal year.

Contacting Your Township

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's accountability for the money it receives. If you have questions about this report or need additional information, you may contact us at Sumner Township 8644 W. Polk Rd. Sumner, Michigan, 48889 or by telephone at 989-463-4531 or 989-833-2286.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Sumner Township
Statement of Net Assets
March 31, 2006

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and cash equivalents	\$403,825
Cash - restricted	4,952
Taxes receivable	10,325
Due from agency fund	<u>73</u>
Total current assets	419,175
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>209,590</u>
Total assets	628,765
Liabilities	
Current liabilities	
Accounts payable	<u>11,129</u>
Total current liabilities	<u>11,129</u>
Net Assets	
Invested in capital assets, net of related debt	209,590
Restricted for Perpetual Care	4,172
Restricted for Sumner Daze	-
Unrestricted	<u>403,874</u>
Total net assets	<u><u>\$617,636</u></u>

See Accompanying Notes to Financial Statements.

Sumner Township
Statement of Activities
for the Year Ended March 31, 2006

		<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for services</u>	<u>Net (expense) revenue and changes in net assets</u>
Functions/Programs			
Primary government			
General government	\$129,926	\$24,050	(\$105,876)
Public safety	62,726	-	(62,726)
Public works	87,973	-	(87,973)
Recreation and culture	22,588	-	(22,588)
Total primary government	<u>\$303,213</u>	<u>\$24,050</u>	(279,163)
General revenues			
Property taxes			99,167
State shared revenues			144,698
Unrestricted investment earnings			9,469
Miscellaneous revenues			<u>31,986</u>
Total general revenues			285,320
Change in net assets			6,157
Net assets - beginning of year			<u>611,479</u>
Net assets - end of year			<u>\$617,636</u>

See Accompanying Notes to Financial Statements.

FUND FINANCIAL STATEMENTS

Sumner Township
Balance Sheet
Governmental Funds
March 31, 2006

	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$399,653	\$4,172	\$403,825
Cash - restricted	4,952	-	4,952
Taxes receivable	10,325	-	10,325
Due from other funds	<u>73</u>	<u>-</u>	<u>73</u>
Total assets	<u><u>\$415,003</u></u>	<u><u>\$4,172</u></u>	<u><u>\$419,175</u></u>
 <u>Liabilities, Fund Balance and Other Credits</u>			
<u>Liabilities</u>			
Accounts payable	<u>\$11,129</u>	<u>-</u>	<u>\$11,129</u>
Total liabilities	<u>11,129</u>	<u>-</u>	<u>11,129</u>
 <u>Fund Balance</u>			
Fund Balance - Reserved			
For Perpetual Care	-	\$4,172	4,172
For Community Center	40,585	-	40,585
For Fire Protection	6,632	-	6,632
For Sumner Daze	4,952	-	4,952
Fund Balance - Unreserved	<u>351,705</u>	<u>-</u>	<u>351,705</u>
Total fund balance	<u>403,874</u>	<u>4,172</u>	<u>408,046</u>
Total liabilities and fund balance	<u><u>\$415,003</u></u>	<u><u>\$4,172</u></u>	<u><u>\$419,175</u></u>

See Accompanying Notes to Financial Statements.

Sumner Township
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
for the Year Ended March 31, 2006

Total fund balance - governmental funds	\$408,046
---	-----------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	.
Cost of capital assets	1,143,504
Accumulated depreciation	<u>(933,914)</u>
Net assets of governmental activities	<u><u>\$617,636</u></u>

See Accompanying Notes to Financial Statements.

Sumner Township
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended March 31, 2006

	General Fund	Permanent Fund	Total
Revenues			
Taxes and penalties	\$99,167	-	\$99,167
State grants	144,698	-	144,698
Charges for services	24,050	-	24,050
Interest and rentals	9,459	\$10	9,469
Other revenues	12,786	-	12,786
	<u>290,160</u>	<u>10</u>	<u>290,170</u>
Expenditures			
General government	96,208	-	96,208
Public safety	62,726	-	62,726
Public works	87,973	-	87,973
Recreation and cultural	22,588	-	22,588
Other			
Insurance, bonds and fringes	18,044	-	18,044
Capital outlay	42,747	-	42,747
	<u>330,286</u>	<u>-</u>	<u>330,286</u>
Excess of revenues over (under) expenditures	(40,126)	10	(40,116)
Fund balance - beginning of year	444,000	4,162	448,162
Fund balance - end of year	<u>\$403,874</u>	<u>\$4,172</u>	<u>\$408,046</u>

See Accompanying Notes to Financial Statements.

Sumner Township
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
for the Year Ended March 31, 2006

Net change in fund balances - total governmental funds	(\$40,116)
--	------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add: capital outlay	42,747
Add: donated item	13,000
Deduct: depreciation expense	(15,674)
Add: gain on sale of equipment	<u>6,200</u>

Change in net assets of governmental activities	<u><u>\$6,157</u></u>
---	-----------------------

See Accompanying Notes to Financial Statements.

Sumner Township
Statement of Net Assets
Fiduciary Funds
March 31, 2006

	<u>Agency</u>
	<u>Tax Collection</u>
Assets	
Cash	<u>\$73</u>
Total assets	<u>73</u>
 Liabilities and Fund Balances	
Liabilities:	
Due to other funds	<u>73</u>
Total liabilities	<u>73</u>
Fund balances:	<u>-</u>
Total liabilities and fund balances	<u><u>\$73</u></u>

See Accompanying Notes to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Sumner Township
Notes to Financial Statements
March 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Sumner Township (the Township) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township.

New Accounting Standards Adopted

In fiscal year 2006, the Township adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- # 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – (an Amendment to No. 34)*
- # 38 – *Certain Financial Statement Note Disclosures.*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the Township’s governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the Township’s statement of net assets includes both noncurrent assets and noncurrent liabilities of the Township, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

In addition to the government-wide financial statements, the Township has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Sumner Township
Notes to Financial Statements
March 31, 2006

Statement No. 34 also requires certain required supplementary information in the form of *Management's Discussion and Analysis* which includes an analytical overview of the Township's financial statements. In addition, a budgetary comparison statement is presented that compares the adopted and modified budget for all major funds with actual results.

Statement No. 37 amends GASB Statements No. 21 and 34. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34.

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures* which modifies, establishes and rescinds certain financial statement disclosure requirements.

Reporting Entity

The Township is governed by an elected five-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Township and its component units. In evaluating how to define the Township for financial reporting purposes, management has considered all potential component units, entities for which the Township is considered to be financially accountable. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

Joint Ventures

Rural Urban Fire Control Board – The Township is a member of the Rural Urban Fire Control Board which is a joint venture between the City of Alma and the Townships of Arcada, Pine River, Seville and Sumner. The Board provides fire protection services to the Rural Urban Fire District. The membership of the Board is composed of seven members, of which the Township is represented. The Board is responsible for preparing an annual budget (which is approved by the City and the Townships) and to carry out all activities of the Board.

The Board has established a funding formula based on assessed valuation, population, and runs. The fire fighting equipment is owned jointly by the member municipalities. The City of Alma provides day-to-day management oversight of this joint venture.

For the period April 1, 2005 through March 31, 2006, the Township's contribution to the Board was \$60,040.

The Township is unaware of any circumstances that would cause it an additional benefit or burden in the near future. Complete financial statements for the year ended June 30, 2006 can be obtained by writing to: City of Alma, 525 Superior Street, PO Box 278, Alma, Michigan, 48801.

Sumner Township
Notes to Financial Statements
March 31, 2006

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Sumner Township
Notes to Financial Statements
March 31, 2006

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments, are recorded only when payment is due.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fiduciary Fund Financial Statements – Fiduciary funds account for assets held by the Township as a trustee or agency capacity on behalf of others and, therefore, are not available to support Township operations. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements as they are not an asset of the Township available to support Township's operations. The Township currently maintains an agency fund to account for the monies collected and paid to various governmental entities for property tax collections.

The Township reports the following major funds:

Governmental Funds - The *General Fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The *Permanent Fund* represents the Township's trust arrangement in which the Township is the beneficiary of the earnings on the principal to be used exclusively for care and maintenance of its cemetery.

Budgets and Budgetary Accounting

Budgets are adopted by the Township for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Sumner Township
Notes to Financial Statements
March 31, 2006

Property Taxes

Property taxes are levied on each December 1st on the taxable valuation of property located in the Township as of the preceding December 31st. These taxes are due on February 14th with the final collection date of February 28th before they are added to the county delinquent tax rolls.

For Township operations, the 2005 taxable valuation of the Township totaled \$30,809,910, on which .9517 mills were levied. For fire services, 1.7051 mills were levied and for the community center, .4871 mills were levied.

The total 2005 levy for the Township was \$96,848.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories, which are immaterial in amount, are not recognized as an asset in these financial statements. Inventories are recorded as expenditures at the time of purchase in the governmental and proprietary fund types.

Deposits

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit.

Receivables

Receivables have been recognized for all significant amounts due the Township in accordance with the accounting principles used for the particular fund. Valuation reserves have not been provided since their collection is not considered doubtful and any uncollected amounts would be immaterial.

Sumner Township
Notes to Financial Statements
March 31, 2006

Capital Assets

Capital assets, which include property, plant and equipment, of the governmental activities are reported in the governmental column in the government-wide financial statements. Capital assets of the proprietary funds are reported in the statement of net assets of the proprietary funds. Capital assets are defined by the Township as individual assets with an initial cost equal to or more than \$1,000 and an estimated useful life in excess of one year.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Township does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Township are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land	Not Applicable – Not Depreciated
Buildings & Improvements	20 - 25
Furniture & Fixtures	5
Equipment	5
Vehicles	5

Sumner Township
Notes to Financial Statements
March 31, 2006

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. As of year end, there were no reserves or designations.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Township does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended March 31, 2006, the Township incurred expenditures in excess of the amounts appropriated as shown on page 18 of this report.

NOTE 3 - DETAILED NOTES

Cash and Cash Equivalents

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations, repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Sumner Township
Notes to Financial Statements
March 31, 2006

The Township has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments noted above. The Township's deposits are in accordance with statutory authority.

At March 31, 2006, the carrying amount of the Township's cash and cash equivalents was \$408,777 as follows:

Cash deposits	\$239,453
Cash - restricted	4,952
Certificate of Deposit	164,372
Total	\$408,777

At year end, the carrying amount of the Township's cash deposits and certificate of deposits was \$408,777 and the bank balance was \$409,667. Of the bank balance, \$103,428 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. Restricted cash represents Sumner Daze funds.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Capital Assets - A summary of changes in general fund capital assets follows:

	April 1, 2005	Additions	Disposals	March 31, 2006
Land	\$124,250	-	-	\$124,250
Buildings & Improvements	907,428	\$19,300	-	926,728
Furniture & Fixtures	20,000	-	-	20,000
Equipment	50,079	23,447	(\$20,000)	53,526
Vehicles	6,000	13,000	-	19,000
Sub-totals	1,107,757	55,747	(20,000)	1,143,504
Accumulated Depreciation	(934,240)	(15,674)	16,000	(933,914)
Totals	\$173,517	\$40,073	(\$4,000)	\$209,590

Depreciation expense was charged to the general government function.

Sumner Township
Notes to Financial Statements
March 31, 2006

Reserved Fund Balance

Fund balance has been reserved for fire protection, community center operations and maintenance and for perpetual care of the cemetery.

Risk Management

The Township is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Township has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Employees Retirement System – Defined Contribution Pension Plan

Plan Description

Sumner Township participates in the John Hancock Defined Contribution Pension Plan for Michigan Township Employees. The name of the plan is the Sumner Township / Gratiot County Pension Plan.

All members of the Township Board and all Township Employees are eligible to participate in the plan. As of March 31, 2006, the pension plan's current membership was 5 employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. The amount participant's receive depend solely on the amount contributed to the participant's account and the returns earned on those contributions.

Sumner Township
Notes to Financial Statements
March 31, 2006

Funding Policy

Employer contributions for each participant will be 15% of compensation. Mandatory employee contributions are 5% of compensation on an after-tax basis. Additional voluntary non-deductible contributions are not allowed.

Benefits are 100% vested upon plan participation.

During the year, the Township's actual contributions to the plan amounted to \$5,426, which includes \$4,070 of employer contributions, and \$1,356 of employee contributions.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

Sumner Daze

During the 2006 fiscal year, the Township maintained the cash receipts and cash disbursements for Sumner Daze, a festival that is held on an annual basis. The Township maintains a separate checking account to account for this activity. As of March 31, 2006, the balance in this checking account was \$4,952. For the year ended March 31, 2006, revenues and expenditures for this festival totaled \$7,611 and \$7,141, respectively.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

Sumner Township
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Budget to Actual
Year Ended March 31, 2006

	Original	Final	Actual	Variance
Revenues				
Taxes and penalties	\$140,378	\$140,854	\$99,167	(\$41,687)
State grants	147,717	147,717	144,698	(3,019)
Charges for services	21,798	21,798	24,050	2,252
Interest and rentals	2,500	2,500	9,459	6,959
Other revenues	10,550	10,550	12,786	2,236
Total revenues	<u>322,943</u>	<u>323,419</u>	<u>290,160</u>	<u>(33,259)</u>
Expenditures				
General government	142,748	159,852	96,208	63,644
Public safety	60,024	62,840	62,726	114
Public works	77,633	78,833	87,973	(9,140)
Recreation and cultural	13,300	29,300	22,588	6,712
Other				
Insurance, bonds and fringes	23,600	23,730	18,044	5,686
Capital outlay	15,835	15,850	42,747	(26,897)
Total expenditures	<u>333,140</u>	<u>370,405</u>	<u>330,286</u>	<u>40,119</u>
Excess of revenues over (under) expenditures	(10,197)	(46,986)	(40,126)	6,860
Fund balance - beginning of year	<u>448,172</u>	<u>448,172</u>	<u>448,172</u>	<u>-</u>
Fund balance - end of year	<u>\$437,975</u>	<u>\$401,186</u>	<u>\$408,046</u>	<u>\$6,860</u>

See Accompanying Notes to Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Township Board
Sumner Township
Gratiot County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sumner Township (the Township) as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements and have issued our report thereon dated July 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

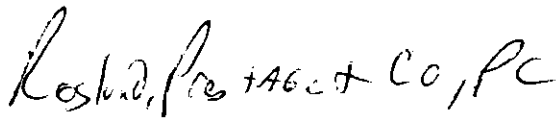
In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Township in a separate letter dated July 12, 2006.

This report is intended solely for the information and use of management and the Township Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Co, PC".

Roslund, Prestage & Company, P.C.
Certified Public Accountants

July 12, 2006



Management Letter

Members of the Board
Sumner Township, Michigan

In planning and performing our audit of the financial statements of Sumner Township for the fiscal year ended March 31, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated July 12, 2006, on the financial statements of Sumner Township.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

July 12, 2006

Organizational Structure

The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Township Board remains involved in the financial affairs of the Township to provide oversight and independent review functions including the consideration of cash transactions and monthly review of financial reports, bank statements, receipts journal, and paid invoices.

Budget

We recommend that the Township formally adopt all future budgets in a format that coincides with page 18 of the current year audit report. In addition, amendments to the budget should be reflected in the final budget adopted by the board.

Adopt a Capitalization Policy and Expense Small Items

We noted during our audit that there is no established guideline concerning which property and equipment acquisitions are to be capitalized. We recommend that the Township establish a capitalization policy whereby all purchases over a minimum threshold (i.e. \$1,000) and having a useful life of one year or more are capitalized. This policy should be in writing and communicated to those who code property invoices to ensure the policy is consistently followed. Also, we recommend that capitalizable expenditures be coded to an account separate from those expenditures which will not be capitalized. This will result in a more uniform treatment of property and equipment and allow the Township to continue to assess current expenditures along with identifying significant assets that will later be capitalized.